

**STATE BOARD OF EQUALIZATION
FISCAL YEAR 2010-11
PROPOSAL No. XX**

TITLE OF PROPOSED CHANGE:

Ramp Down – Temporary 1.0 Percent State Sales and Use Tax Rate Increase

SUMMARY OF PROPOSED CHANGES:

This proposal requests \$871,000 (\$627,000 General Fund, \$244,000 Reimbursements) in FY 2010-11 to ramp down the temporary 1.0 percent sales and use tax rate increase that was part of the 2009 Budget Package. The rate is scheduled to sunset on July 1, 2011. Funding is needed to notify over 850,000 taxpayers of the rate change and to re-program BOE's computer systems and databases for the rate change.

If funding is not provided reprogramming of BOE computer systems will have to be accomplished through a temporary redirection of consulting staff working on the E-services Expansion Project (ESEP). As a result, the ESEP will be delayed and cost savings realized by the project will be reduced. Also, taxpayers may not be notified timely of the tax rate change if funding is not provided.

STATE BOARD OF EQUALIZATION**Fiscal Year 2010-11****Ramp Down - Temporary 1.0 Percent State Sales and Use Tax Rate Increase****A. Nature of Request**

The February 2009 Budget Package authorized a temporary 1.0 percent sales and use tax rate increase effective April 1, 2009. The temporary tax rate increase is scheduled to sunset on July 1, 2011.

This proposal requests \$871,000 (\$627,000 General Fund, \$244,000 Reimbursements) to pay for one time hard costs to notify approximately 850,000 taxpayers of the tax rate change and to reprogram Board of Equalization's (BOE) computer systems due to the ramp down of the temporary 1.0 percent sales and use tax rate increase.

B. Background/History

Prior to April 1, 2009, the statewide sales and use tax rate was 7.25 percent. As a result of the February 2009 Budget Package, a temporary 1.0 percent sales and use tax rate increase, raising the statewide rate to 8.25 percent became effective April 1, 2009 through June 30, 2011. In order to expeditiously implement this temporary 1.0 percent sales and use tax rate increase, the Board of Equalization was obligated to notify taxpayers and other interested parties of the temporary tax rate increase, modify e-File and paper tax forms, and to reprogram various computer programs/databases critical to the effective administration of California's multi-billion dollar sales and use tax system. These activities resulted in unplanned one-time costs of \$850,000 (\$503,000 – IT Consulting Services, \$347,000 – Printing and Postage).

Since voters did not approve the proposed Budget Stabilization Constitutional Amendment on May 19, 2009, the temporary 1.0 percent tax rate increase will expire on July 1, 2011. BOE will need to notify taxpayers and other interested parties of the tax rate change as well as reprogram various computer programs/databases. BOE does not have the capacity to absorb the estimated \$871,000 needed to ramp down the temporary tax rate increase.

The temporary 1.0 percent sales and use tax rate increase resulted in additional workload and resources to implement the tax change. Due the current budget constraints the BOE redirected staff to address the increased workload resulting from increased taxpayer telephone calls and e-mails, increased errors on returns, and increased audit time. The BOE only requested funding for its hard costs to notify taxpayers of the rate change and to reprogram its computer systems to accommodate the tax rate change.

The reprogramming of BOE computer systems was accomplished through a temporary redirection of consulting staff working in the E-Services Expansion Project (ESEP). A special project report to incorporate this work into ESEP was submitted April 1, 2009 and approved by the Office of the State Chief Information Officer.

C. State Level Considerations

BOE is charged by the State Constitution and by statute to oversee the property tax assessment practices of 58 county assessors, assess and allocate the property values of railroads and specified utilities, administer the state's sales and use tax, fuel, alcohol, and tobacco taxes as well as collect fees to fund numerous specific state programs. Successful administration of these tax and fee programs has resulted in the collection of 32 percent of the State's annual revenue.

This proposal results from actions approved by the Legislature and the Governor in the February 2009 Budget Package to address California's severe budget shortfall.

D. Justification and Analysis of All Feasible Alternatives

Alternative 1 – BOE requests \$871,000 in FY 2010-11 to ramp down the temporary 1.0 percent State Sales and Use Tax rate increase.

The requested funding is needed to:

- Prepare and distribute a Special Notice to over 850,000 taxpayers.
- Reprogram BOE's computer systems to accommodate the tax rate decrease and prior period tax recovery claims.

BOE is only asking for reimbursement of hard costs. The funding request is explained in detail below:

External Affairs-E-Publishing

One-time funding is being requested to print and mail special notices.

	Printing	Envelopes	Postage
FY 2010-11	\$54,988	\$61,393	\$303,450

Postage ramp down costs are more than the ramp up costs due to an increase in postage costs.

Technology Services Department (TSD)

The ramp down of the temporary 1.0 percent sales and use tax rate increase requires programming modifications to multiple subsystems within the BOE Automated Compliance Management System (ACMS), Mid-Tier/PC Applications, and Integrated Revenue Information System (IRIS). BOE will redirect internal IT resources for the bulk of this work but will require a portion of the work be performed by a specialty vendor.

Efficiencies that were achieved during ramp up will be passed on to the ramp down process which results in slightly lower TSD costs for ramp down.

The majority of the programming costs to ramp down the increase are related to the split return functionality required for both paper and electronic returns. Split returns will be

required for taxpayers filing on a calendar year basis. These taxpayers will be required to file two returns for the 2011 reporting period. The system must create special revenue periods to ensure that:

- the correct tax is collected and tracked,
- revenue is allocated to the correct fund,
- correct penalties and interest are assessed, and,
- accurate returns are submitted.

Without a split return, computations to assess the correct tax amount due will not work properly and audit information would be compromised.

New Fund Code (for period after July 1, 2011):

To identify transactions at the old and new rate, the implementation team created a new fund code that allows adjustment to the General Fund. This accommodates both split period returns and tax recovery items (e.g., bad debt on taxable sales, returned taxable merchandise, and other miscellaneous deductions). Additionally, this allows BOE to account for actual revenue attributed to the temporary 1.0 percent Sales and Use Tax rate increase.

Changes to Returns:

The 1.0 percent tax rate ramp down will affect taxpayers reporting annually and special reporting period filers. The options for reporting tax at multiple rates include: sending two returns (one for each rate), adding a schedule to report the transactions at the prior rate, or modifying the return to allow for reporting at both rates (selected option). This is required when the temporary tax increase sunsets. As with the new fund code, this will also accommodate tax recovery items.

Activity	Contract Hours	Cost per Hour	Total
Return Addressing	185		
Revenue Tracking, Allocation and Reporting	1,876		
Audits (tracking, allocation and P & I calc.)	778		
E-Filing Functionality	1,210		
Misc Hours	502		
Total Hours	4,551	\$99	\$450,549

This proposal is consistent with the Board of Equalization's (BOE's) mission to serve the public through fair, effective, and efficient tax administration. Specifically, this proposal allows the BOE to:

- Respond quickly and effectively to new tax and fee programs and changes in existing programs.
- Be fair and objective in our treatment of all taxpayers and consistent in our administration of the law.
- Be persistent in promoting and encouraging voluntary compliance with the tax laws.
- Provide convenient, timely access to accurate information while ensuring the continued integrity of our operations and confidentiality of taxpayer information.

Pros:

- Provides the resources needed to timely and efficiently ramp down the temporary 1.0 percent sales and use tax rate increase.
- Will not require redirection of resources from the ESEP, thus will not delay the E-Services expansion.
- Will not significantly impact ongoing workload.

Cons:

- Requires additional resources with associated costs.

Alternative 2 –Ramp down the temporary 1.0 percent State Sales and Use Tax rate increase without a budget augmentation

Under this alternative, BOE would redirect resources to ramp down the temporary 1.0 percent sales and use tax rate increase. The reprogramming of BOE computer systems will have to be accomplished through a temporary redirection of consulting staff working on the ESEP. As a result, the ESEP will be delayed.

Pros:

- Does not require a budget augmentation.

Cons:

- Will significantly impact ongoing workload.
- May delay notification to taxpayers regarding the tax rate change.
- Consulting resources specified for ESEP will be redirected to the ramp down and the tax rate increase. Specific cost savings impact on the ESEP will not be known until the end of 2010. Failure to notify taxpayers of the tax rate change will result in increased errors on returns and the possible over collection of sales and use tax to their customers with a consequential cost for processing returns.

E. Facility/Capital Outlay Consideration

This proposal does not request positions; therefore, there will not be an additional impact on existing facilities.

F. Outcomes and Accountability

This proposal will allow the BOE to timely and effectively implement the mandated state sales and use tax rate decrease.

G. Timetable

January 2011 – June 2011
<ul style="list-style-type: none">• Contract with consultant services.• Revise paper and eFile returns to accommodate tax rate decrease.• Complete IRIS programming to implement tax rate decrease.• Prepare and distribute special notices and revised returns.

H. Recommendation

Alternative 1 is recommended. BOE requests funding of \$871,000 in FY 2010-11 to ramp down the temporary 1.0 percent State sales and use tax rate increase. This alternative will provide the hard costs associated with notifying taxpayers of the tax rate change and reprogramming the BOE computer systems. This alternative allows BOE to meet its statutory obligation to efficiently administer the mandated decrease in the state tax rate. In light of the current budget situation, BOE would be adversely impacted if funding is not provided for this mandate.

BOE is requesting only the hard costs for mail outs and vendor services and is re-directing internal resources to perform the remaining work.

I. Fiscal Detail

See attached Fiscal Detail" schedules.

BCP No.
DATE: August 31, 2009

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL--FISCAL DETAIL
STATE OPERATIONS
FISCAL YEAR 2010-11
(Dollars in Thousands)

Title of Proposed Change: RAMP DOWN - TEMPORARY 1.0 PERCENT STATE SALES AND USE TAX RATE INCREASE
30 Sales and Use Tax/30.2 Processing Tax Returns/30.3 Auditing Accounts/
Program/Element/Component: 30.3 Collecting Taxes Receivable

	PERSONNEL YEARS			CY 2009-10	BY 2010-11	BY + 1 2011-12
	CY	BY	BY + 1			
	2009-10	2010-11	2011-12			
TOTAL SALARIES AND WAGES <i>a/</i>						
Salary Savings						
NET TOTAL SALARIES AND WAGES						
Staff Benefits <i>a/</i>						
Distributed Administration <i>b/</i>						
TOTAL PERSONAL SERVICES						
OPERATING EXPENSE AND EQUIPMENT						
General Expense						
Distributed Administration						
Printing						116
Communications						
Postage						304
Travel--In-State						
Travel--Out-of -State						
Training						
Facilities Operations						
Consulting & Professional Services: Interdepartmental						
Consulting & Professional Services: External						451
Department of Technology Services						
Data Processing						
Equipment						
Other Items of Expense: (Specify Below)						

a/ See page 9 of 10 for itemized staff benefits and classification detail.

b/ Represents Distributed Administration costs resulting from this BCP. The Distributed Administration costs for existing BOE programs will reflect a corresponding decrease which will be addressed in the Planning Estimate process.

	BCP No.		
	CY	BY	BY + 1
	2009-10	2010-11	2011-12
TOTAL OPERATING EXPENSE AND EQUIPMENT		\$871	
TOTAL EXPENDITURES (State Operations)		\$871	

Source of Funds

General Fund	(0001)		\$627	
Special Funds:				
Breast Cancer Fund	(0004)			
State Emergency Telephone	(0022)			
Motor Vehicle Fuel Account	(0061)			
Occupational Lead Prevention Fund	(0070)			
Childhood Lead Poisoning Prev. Fund	(0080)			
Cig. and Tobacco Prod. Surtax Fund	(0230)			
Oil Spill Prevention and Admin. Fund	(0320)			
Integrated Waste Management	(0387)			
Underground Storage Tank Fund	(0439)			
Energy Resources Programs Account	(0465)			
CA. Children and Families First Trust Fund	(0623)			
Federal Trust Fund	(0890)			
Timber Tax Fund	(0965)			
Gas Consumption Surcharge Fund	(3015)			
Water Rights Fund	(3058)			
Elec. Waste Recovery and Recycling Acct.	(3065)			
Cig. and Tobacco Prod. Compliance Fund	(3067)			
Federal Funds				
Other Funds				
Reimbursements	(0995)		\$244	
Net Total Augmentation (Source of Funds)			\$871	

DETAIL OF STAFF BENEFITS AND PERSONAL SERVICES

Staff Benefits Detail:

OASDI
Health Insurance
Retirement
Workers' Compensation
Industrial Disability Leave
Non-Industrial Disability Leave
Unemployment Insurance
Other

TOTAL

CY	BY	BY + 1
2009-10	2010-11	2011-12

(Whole Dollars)

Classification	Positions			Salary Range	Amount		
	CY 2009-10	BY 2010-11	BY + 1 2011-12		CY 2009-10	BY 2010-11	BY + 1 2011-12
Blanket Funds:							
Overtime (Various)							
Temporary Help							
TOTAL SALARIES AND WAGES							

a/ The salary is the mid-step of the salary range for the stated classification.

SUPPLEMENTAL INFORMATION

Dollars in Thousands

	<u>Current Year</u>	<u>Budget Year</u>	<u>Budget Year + One</u>
Proposed Equipment:			
N/A			
Total			
Proposed Contracts:			
N/A			
Total			
One-Time Costs:			
Printing		\$116	
Postage		304	
Consulting & Professional Services: External		451	
Total		\$871	
Future Savings:			
N/A			
Total			
Full-Year Cost Adjustments:			
N/A			
Total			